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AN INTERNATIONAL ANALYTICAL COMPARISON OF THE
STRUCTURE AND CONTENT OF ANNUAL REPORTS IN
THE EUROPEAN ECONOMIC COMMUNITY,
SWITZERLAND, AND THE UNITED STATES

Norton M. Bedford, University of Illinois

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College of Commerce and Business Administration
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by

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Any observer of economic society is well aware that business is more and more an international undertaking. Shareholders, investors, creditors, employees and customers of large corporations typically include citizens of many countries. As readers of financial statements, one would assume these groups would demand that substantially the same information be disclosed in financial statements, regardless of the national origin of the statements. Furthermore, without information to the contrary, one would assume that economic decisions in each country would require substantially the same information in financial statements. But the

Note: The following notations are used frequently in this paper.

CH	Switzerland (Confederation Helvetique)
CO	Swiss "Code des Obligations" (1911)
PCO	Proposal for revisions of the "Code des Obligations" (April 1972)
D	EEC proposal for a fourth directive (Nov. 10. 1971)
D art 8 A	Proposed directive article 8 section on Assets
D art 8 P	Proposed directive article 8 section on Liabilities ("passif")
EEC	European Economic Community
OJ	Official Journal of the European Communities
Rule	Rule of Regulation S-X (1972 edition)
SEC	Securities and Exchange Commission
US	United States

impact of national cultures is felt throughout accounting and all over the world financial statements differ in form and content. This is singular for accounting is said to be the language of business and, since business is an international phenomenon, one would expect a common international language of accounting to exist. Despite the logic of this inference, the simple fact is that no uniform international accounting language has yet been developed and accepted by accountants of the world. As technological developments increasingly join the nations of the world together, accountants need to correct this deficiency. They might well be advised to note the international activities of other professions as exemplified by the efforts of lawyers now trying to codify a law dealing with international bills of exchange and international promissory notes.¹

While accountants have for long asserted a general interest in the development of international accounting standards, specific proposals have received slow acceptance. This attitude is now changing and definite progress is now being made. European countries are beginning to codify the form and content of annual financial reports. In support of this beginning, the purpose of this paper is to set forth and examine the different information provided by annual reports in the United States, the EEC and Switzerland. Emphasis will be placed on differences in accounting thought, principles and procedures underlying report preparation.

A. Disclosure Format of Annual Reports

It is neither feasible nor particularly helpful to study all the accounting rules and procedures guiding accounting practice in each political jurisdiction. A representative list of regulations from each area is sufficient to lay bare the essence of the differences. Accordingly, the rules and procedures of article 5 of Regulation S-X of the SEC, those in the proposed fourth directive of the EEC Commission, and those in the Provisional Official Report for the revision of Swiss

¹See United Nations Commission on International Trade Law, 1972 Report, revised.

Corporations' Law have been selected for examination. Two observations are necessary to support and justify this selection:

1. The three accounting regulations are not applied to the same kind of business enterprises in the three political jurisdictions. In the United States, Regulation S-X applies to only a few of the 1.5 millions plus corporations in the U.S. The large majority of the business enterprises, more than 99%, are not required to follow Regulation S-X. On the other hand, in the EEC and in Switzerland all corporations and private limited liability companies will have to follow the legally prescribed accounting rules.² This suggests that business enterprises required to follow US regulations and those required to follow European accounting rules may differ in many ways. But most American business enterprises follow generally accepted accounting principles and since Regulation S-X includes these principles it may be that the main difference is merely a question of the degree of uniformity with which the principles are applied.
2. While some may express reservation at the failure of this paper to include consideration of professionally developed principles independent of governmental ruling, it is the supposition of the authors that governmental rulings and regulations follow and lag behind developments in private practice and the results of research studies. This supposition is based on the frequent assertion that law must necessarily lag behind changes in social values since law merely confirms that which is socially desired by members of society. Thus to compare privately developed accounting principles in one country with those legally supported in another country would constitute a comparison of unlike things.

²For example, in 1970 there were in Switzerland 65,382 corporations, 2,776 private limited liability companies and 3,927 partnership partially limited by shares. (Annuaire statistique de la Suisse, 1971 p. 395.) All of these would have to follow the legally prescribed accounting rules.

- a. The United States Form 10-k is the principal form of annual report filed by commercial and industrial companies registered under the 1934 Act and by certain companies that are registered under the 1933 Act. The annual report of form 10-k contains, among other things, certified balance sheets of the registrant as of the close of the last two fiscal years, in comparative columnar form, and a certified income statement for the year. While form 10-k contains the instructions for filing the financial statements, their form and content are governed by Regulation S-X, the principal accounting regulation of the SEC. Promulgated originally in 1940 the Regulation has been amended many times including a major revision in 1972. Regulation S-X consists of a number of "articles". Each article consists of a number of "rules". Article 5 sets forth the requirements applicable to the form and content of balance sheets and income statements of the more important commercial and industrial companies. Exceptions, which are not considered in this broad comparative study, are set forth in and subsequent to Article 5 A. For the comparison undertaken in this study, Rule 5.02 (balance sheet) and Rule 5.03 (income statement) of Regulation S-X will be used.
- b. European Economic Community The EEC institutions comprise the Assembly (called the European Parliament), The Council (called the Council of Ministers), the Commission, the Court of Justice, and the Economic and Social Committee. On June 30, 1970 the Commission set out a proposed statute for the creation of an European company. This "Societas Europea" would be a company subject to a specific overall legal system throughout the EEC. Chapter 6 of the draft regulation deals with the preparation of the annual report (annual accounts). While it will probably be a number of years before the Council legally creates the "Societe

Europeenne",³ the existence of the 1970 draft is significant because it reflects current view on this matter.

The Council of Ministers is the most powerful body among EEC institutions. It may issue legal directives which are usually first proposed by the Commission. Countries then adapt their own laws to be in accord with such directives. In the field of company law and accounts, the Council issued one directive and has another four under consideration. One subject of the first directive of March 9, 1968, dealt with the publication of the balance sheet and the profit and loss account. The proposed second and third directives relate to company's share capital and to mergers. A proposal for a Fourth Directive was submitted by the Commission to the Council on November 10, 1971.⁴ It deals with the presentation and content of the annual accounts, the content of the management report in the annual statement, and the methods of valuation used as well as the publication of these documents. The purpose of the proposed Directive is clearly revealed in its preamble:

"Whereas coordination of the national provisions concerning the presentation and contents of the annual accounts and report, methods of valuation and publication of those documents in respect of the Societe Anonyme, Aktiengesellschaft ... and in respect of the Societe a responsabilité limitée, Gesellschaft mit beschränkter Haftung ... (the joint stock company and private liability company) is one of special importance for the protection of members and third parties;

"Whereas simultaneous coordination is necessary for these types of companies because, on the one hand, the activities of these companies frequently extend beyond the frontiers of their national territory and, on the other hand, they offer no safeguards to third parties beyond the amount of their net assets ...;

ates of European Parliament, OJ Annex, No. 156 (Dec., 1972), p. 42.

Nº C 7/11 (January 28, 1972).

"Whereas it is also necessary to establish the Community equivalent legal requirements as regards the extent of the financial information that should be made available to the public by companies that are in competition with one another and have the same legal form;

"Whereas the annual accounts must reflect as accurately as possible the company's assets and liabilities, financial position and results; whereas to this end a lay-out comprising items, that in principle are obligatory must be prescribed for drawing up the balance sheet and profit and loss account; and whereas on the other hand the different methods permitted in the Member States for valuation of assets and liabilities must be coordinated to ensure that annual accounts present equivalent information..."⁵

The philosophy guiding the preparation of these accounts is that they must "give as accurate a picture, as possible, of the assets and liabilities, financial position and operating results of the company".⁵ Accounts must comply with the standard format and satisfy the requirements of regular, proper and uniform accounting to the end that the information included in annual reports will be similar throughout the EEC. While the proposed Directive sets out alternative formats for the balance sheets and profit and loss accounts and a choice among these standard forms is permitted, the differences among the permitted formats are more in the order of the items included than in their description and wordings. For this study, the formats set forth in D art 8 (balance sheet) and in D art 20 (income statement) will be used. The proposed Directive was examined by the European Parliament⁶ on November 16, 1972 and by the Economic and Social Committee⁷ on February 22, 1973. Both

⁵OJ N^o C 7/11 (January 26, 1972).

⁶Working Documents, European Parliament, Document 159/72 (October 25, 1972). "Debates of the European Parliament" OJ annex N^o 155 (November 1972) p. 178-188.

⁷Opinion of the Economic and Social Committee OJ N^o C 39/31 (June 7, 1973). The report with further explanations may be obtained by writing to the Committee at 2, rue Ravenstein, Brussels, Belgium.

groups issued reports expressing opinions and suggesting amendments. An independent review of the proposed Fourth Directive has been provided by an influential professional body of European auditors called the EEC Accountants Study Group. In two reports this group has offered comments and suggested amendments.⁸

It is not possible to suggest a specific date when the Council of Ministers will adopt the Fourth Directive, but a revised version of the proposed Directive should be presented to the Council before the end of this year.⁹ Member States will be expected to bring the Directive into force within 30 months after the Council issues it in final form (D art 51).

- c. Switzerland Swiss accounting requirements are separate and quite distinct from those of the EEC. The federal code of obligations (CO) is the principal source of accounting regulations. Every enterprise required to register in the "Registre du Commerce" has to maintain an accounting record and at least once a year has to take an inventory and prepare a profit and loss account and a balance sheet. The accounting records must be adequate for the type and size of enterprise operations and must permit the determination of the assets and liabilities of the business and the results of its operations. The annual accounts should be prepared in accordance with generally recognized commercial principles and be "complete, clear, and easily read" (CO art. 959). While some federal laws require certain business enterprises to give more information than is required by the general accounting law, this is not considered a deviation from the generally accepted accounting requirements since it merely represents an increase necessary for fair disclosures. For example, banks, mutual funds and their management companies, insurance

⁸"First memorandum" supplement au journal UEC 3/1972 (June 26, 1972).

"Second memorandum" supplement au journal UEC 2/1973 (February 21, 1973).

⁹John Gresside "EEC accounting; One small step forward" The Financial Times (April 10, 1973).

and railways companies are required by law to publish their financial statement in specific form and to give additional information to shareholders.

Financial accounting is not influenced by the corporation tax law. While tax accounting requirements differ very often from the data recorded in the accounting records, the tax effect of this difference is neither disclosed in footnotes nor recorded as a deferred charge or credit.

A significant modification of the Swiss Corporation's law, including a revision of Swiss accounting rules, is now in process. In April, 1972, a provisional official report was published by a working group of experts. The working group has stated there is a general agreement that prevailing corporate accounting rules are insufficient and even allow the presentation of unfair financial statements.¹⁰ The implication of this statement is that the modifications proposed by the working group will be substantial. It appears the working group will reveal that the existing law does not prescribe any format for the presentation of annual accounts, and does not require disclosure of changes in accounting principles, consolidated financial statement reporting, and publication of turnover (net sales). Apparently, the proposed law will correct these deficiencies. Also, the proposed new law will probably limit the use of secret reserves in accounting practice. The present law permits a company's board of directors, at its discretion, to set up silent reserves. The proposed law would limit this permission to two cases:

1. The board would still be authorized to undervalue assets in the balance sheet but the amount of undervaluation would have to be disclosed in the notes (PCO art. 19.2).

¹⁰ Rapport intérimaire du président et du secrétaire du Groupe de travail pour l'examen du droit des sociétés anonymes (Berne-Lausanne April, 1972).

2. The board would be authorized to set up arbitrary provisions or value adjustment accounts with a view to ensuring the continued prosperity of the company (PCO art.18 al.2) but the set up and the write off of these arbitrary provisions and value adjustments would have to be disclosed in the income statement. Variations in the amount of these undisclosed reserves would have to be revealed in the notes to the financial statements (PCO art.19.2).

The number and precise wording of the proposed changes that will be adopted by the Swiss Parliament, probably not before the end of 1974, remains an open question.

B. Overriding Requirements of the Financial Statements

Each of the three prescribed accounting disclosure systems endeavors to define the general purpose of annual accounts. A comparative analysis of them suggests that the concepts of "true and fair view", "clarity" and "consistency" generally characterize annual financial statements throughout the world.

- a. True and fair view. Accounting is a body of generally accepted principles and the basic concept underlying all the principles is that the financial statement must be given a true and fair view of the company's assets, liabilities, income, expenses and operating results. It is not necessary or appropriate to define this overriding principle more precisely and the authors agree with the EEC Commission's report which states in its comments: "some codification of these principles in accordance with developments in theory and practice will have to be made by the various professional organizations that exist in the Member States."¹¹

The proposed Fourth Directive provides that annual accounts shall reflect, "... as accurately as possible ...," the company's financial situation

¹¹Statement of Grounds, Commission of EEC, Supplement 7/71 Annex to Bulletin of the European Communities. OJ N^O C 7/11 (January 29, 1972)

(D art 2.3.). The EEC Accountants Study Group, which is concerned with this matter, considers such wording too restrictive and prefers the expression "a true and fair view." The European Parliament overruled the Broechez amendment, which supported the Study Group's proposal,¹² but the Economic and Social Committee has expressed the opinion that it may be appropriate to modify D art 2 and follow and improve the EEC Accountants Study Group's proposition. The Economic and Social Committee's proposed wording refers to the three basic concepts of truth, clarity and consistency.¹³

In Switzerland, PCO art.1 states that annual accounts must in accord with "generally recognized commercial principles" and reflect "...as accurately as possible ..." the company's financial situation. They must be "complete," "clear and easy to read" and follow the principle of continuity.

The concept of "a true and fair" view implies that the annual accounts must be complete and accurate. This means that the information disclosed must meet a minimum requirement "to which shall be added such further material information as is necessary to make the required statements, in the light of circumstances under which they are made, not misleading" (Rule 3.06). The proposed Directive states (1) a more detailed subdivision of the items is always permitted if such helps increase the quality of the information supplied (D art 4) and (2) "any set-off between assets and liabilities or between expenditure and income is prohibited" (D art 6).

- b. Principle of clarity. The principle that the annual accounts must be complete may at times conflict with the principle that they be clear. Rule 3.01 permits some latitudes in the format, order and terminology of financial statement filed with the SEC so the statements will indicate better their significance and character in the light of provisions applicable to such statements. The

¹²OJ annex N^o 155 (November 1972) p. 186.

¹³OJ N^o C 39/31 (June 7, 1973).

principle of clarity is also illustrated in Rule 3.02 (Items not Material): ... "if the amount that would otherwise be required to be shown with respect to any item is not material, it needs not be separately set forth) and in Rule 3.03 (Inapplicable Captions), "if the amount for a stated caption is not material, the item needs not to be separately shown. No caption needs to be shown in any financial statement as to which the items and conditions are not present."

While the EEC Directive is less supportive of the clarity principle over completeness, certain provisions do tend to acknowledge the greater need for clarity: D art 4.2 states that in exceptional cases¹⁴ a different lay-out shall, where the special nature of the undertaking so requires, be permitted for items that are preceded by Arabic numerals. D art 4.3 provides that "Member States" may authorize a regrouping of items of secondary importance in assessing the company's position. Feeling that this is an economic and not a political choice, the EEC Accountants Study Group proposed to give this choice to the companies rather than Members States.

Clarity seems to be the dominant principle in Switzerland. The proposed new Code requires that the annual accounts shall be "clear and easily readable" (PCO art.2.2). The notes to financial statements have to present a view of the company's financial position.¹⁵

- c. Principle of consistency. This principle is best expressed in the wording of D art 2.2: "The annual accounts shall conform to the principles of regular and proper accounting." It is confirmed in the Swiss proposal in PCO art 1.3. The principle of consistency applies both to the structure of the annual accounts and to the valuation of items in the statements. (D art 3 and D

¹⁴The Commission has agreed in principle to suppress recourse to the term "in exceptional case." See OJ Annex N^o 155 (November 1972) p. 183.

¹⁵Rapport interimaire op. cit. N^o 99 ad art 2.2.

art 28 (2). It is illustrated by two kinds of prescription:

- 1) Any change in a valuation method (Rule 3.09; D art 28.2 and 30.1) or in depreciation methods and rates (PCO art.19.2.2) must be disclosed. Furthermore in the EEC and in CH any change in the lay-out must be explained (D art 3 and PCO art.1.3). In the US any change in accounting principles and practice must be disclosed and the SEC requires a retroactive adjustment of the accounts (Rule 3.07).
- 2) In respect to each balance sheet and income statement item the figure for the preceeding years shall be shown in the EEC (D art 4.4) and in CH (PCO art 1.3). The US requires the showing of the last two years in comparative columnar form (Form 10=k).

International support for the principle of consistency seems to rest not so much on blind support for uniformity as on the belief that consistent use of accounting principles will make it possible to compare and understand how a company has developed over a larger period of time.

C. Balance Sheet Disclosures.

In terms of overall distinctive features, one of the more obvious distinctions among the three balance sheet structures is that the EEC and CH disclose the more permanent type of resources and equities (liabilities) first on the grounds that they are generally more difficult to convert into liquid funds and are valued least precisely. The US reverses this structure, showing the most current resources and obligations first, apparently assuming readers are more interested in current resources and obligations. This distinction is reflected in the following broad outline of the classification structures proposed by each jurisdiction.

United States (Rule 5.02) European Economic Community (D art.8) Switzerland (PCO art.5-10)

<u>Assets</u>	<u>Assets</u>	<u>Assets</u>
current assets	subscribed capital unpaid	non current assets
investments	formation expenses	current assets
property	fixed assets	
	current assets	loss (deficit)
intangible assets		
other assets and	prepayment accounts	
deferred charges	loss (deficit)	
<u>Liabilities</u>	<u>Liabilities</u>	<u>Liabilities</u>
current liabilities	subscribed capital	owners' equity
long-term debt	reserves	long term debts and value
other liabilities and	value adjustments	adjustment provision
deferred credits	provisions for contingencies and	current liabilities
reserves	charges	
minority interests	creditors	
	accruals	
stockholders' equity	profits (retained earnings)	

Another overall distinctive feature apparent in the above structure, is the greater level of aggregation used in Switzerland.

In terms of precise distinctions and similarities, the following detailed classification of the three structures reveals both a great deal of uniformity and a significant number of differences. The comparative situation in the United States, in the EEC and in Switzerland is revealed in the following table. In this table, the nature and content of each item in the balance sheet, as prescribed by each system, is compared. The order of the items set forth in article 5 of Regulation S-X is used as a base. Additional accounts are shown in parentheses. For each country one of the following descriptions is assigned to each item.

- A. The law requires that the item be disclosed.
- (A). An equivalent item may be presented.
- B. The item may be computed from disclosed data.
- C. The item is not disclosed separately; it is included with others in another account.
- D. The item does not appear in this section of the financial statement.
- E. Special cases (The reader will find an explanation of this particular case in Appendix A.

When combinations, such as "C-E" are presented, the first descriptive letter indicates the predominant disclosure method and the second indicates the lesser used format.

BALANCE SHEET ITEMS*

<u>ASSETS and other DEBITS</u>	<u>U.S.A.</u>	<u>EEC</u>	<u>CH</u>
<u>I. Current assets*</u>			
1. Cash and cash items*	A	A	A
a. cash on hand and unrestricted demand deposits	A	C	C
b. deposits held as compensating balance against borrowing arrangement	A	C	C
c. time deposits*...	A	D	D
d. funds subject to repayment on call or immediately after the date of the balance sheet	A	C	C
e. other funds ...	A	C	C
2. Marketable securities*	A	A	C
(2.1. reacquired shares)*	D-E	A-E	D-E
(2.2. notes receivable)*	C-E	A	C
(2.3. securities of associated undertakings)		A	
3. Accounts and notes receivable*	A	B	A
a. from customers	A	A	A
b. from parents and subsidiaries*	A		
c. from other affiliates	A		
(d. from undertakings with participating interest)*		A	
(e. from associated undertakings)*		A	
f. from underwriters, directors ...	A	C	C
g. from others ...	A	A	C
4. Allowances for doubtful accounts and notes receivable*	A	E	E
5. Unearned income*	A	E	E
6. Inventories*	A	A	A
a. finished goods	A	A	C
b. work in process	A	A	C
c. raw materials	A	C	C
d. supplies	A	C	C
e (payments on accounts,	C	A	C
7. Other current assets	A	C	A
8. Prepaid expenses*	A	A-C	A
9. Total current assets	A	B	B
<u>II. Investments</u>			
10. Securities of affiliates and other persons	A		
(10.1. participating interest)		A	
(10.2. securities of associated undertakings)		A	

*Definitions and meanings of terms are presented in Appendix A.

	<u>U.S.A.</u>	<u>EEC</u>	<u>CH</u>
1. Indebtedness of affiliates and other persons	A		
(11.1. claims on undertakings with participating interest)		A	
(11.2. claims on associated undertakings)		A	
12. Other security investments*	A	A	C
13. Other investments	A	A	(A)
(13.1. reacquired shares)*	D-E	A-E	D-E
 III. <u>Property*</u>			
14. Property, plant and equipment	A	B	B
a. land	A	C	C
b. buildings	A	C	C
c. machinery and equipment	A	A	A
d. leaseholds	A	D	D
e. (other fixture, tools, and equipment)	A-C	A	C
f. (payments on account and tangible assets in process of construction)	A	A	C
15. Accumulated depreciation of property, plant and equipment*	A	E	E
 IV. <u>Intangible assets</u>			
16. Intangible assets	A	A	A
a. franchises, patents or trade-marks	A	A	C
(a.1. acquired for valuable consideration)	C	A	C
(a.2. created by the undertaking itself)	C	A-E	C
b. goodwill	A	A	C
c. payments on account	C	A	C
17. Accumulated amortization of intangible assets*	A	E	E
 V. <u>Other assets and deferred charges</u>			
18. Other assets	A	C	C
a. non current receivable	A	C	C
b. pension or pension funds	A	C	C
c. other assets	A	C	C
19. Prepaid expenses and deferred charges	A	A	C
20. Deferred research expenses*	A	A-E	D
a. development expenses	A	C	D
b. preoperating expenses	A	C	D
21. Deferred organization expense*	A	A-E	A
22. Deferred debt expense*	A	A	D

	<u>U.S.A.</u>	<u>EEC</u>	<u>CH</u>
23. Deferred commissions and expense on capital shares	A	D	D
(23.1.a. subscribed capital unpaid)*	D	A	A
(23.1.b. unpaid calls on capital)	D	A	C
(23.2.a. loss for the year)*	D	A	A
(23.2.b. loss brought forward)	D	A	C
24. Total assets	A	A-B	A-B

LIABILITIES, RESERVES AND STOCKHOLDERS' EQUITY

I. Current liabilities*

25. Accounts and notes payable*	A	A	A
a. bank for borrowings	A	A	C
b. holders of commercial paper*	A	A	C
c. trade creditors	A	A	C
d. parents and subsidiaries	A		
e. other affiliates - the investment in which are accounted for by the equity method	A		
(f. undertakings with participating interest)		A	C
(g. associated undertakings)		A	C
(h. underwriters, directors ...)*	A	C-E	C
(i. others)	A	A	C
26. Accrued liabilities*	A	A	A
a. payrolls	A	C	C
b. taxes	A	C	C
c. interest	A	C	C
27. Other current liabilities	A	C	C
a. dividends declared	A	C	C
b. current portion of bonds	A	A	C
c. any other items	A	C	C
(d. payments received on account of orders)	C	A	A
28. Total current liabilities	A	B	B

II. Long term debt*

29. Bonds	A	A	A
(maturity between one and five years)	C	A	C
(maturity longer than five years)	C	A	C
(29.1. Mortgage and similar debt)	A	A	A
30. Unamortized debt discount and premium	A	D-C	D-C
31. Indebtedness to affiliates and other persons	A		
(31.1. Indebtedness to undertakings with participation interest)		A	
(maturity between one and five years)		A	
(maturity longer than five years)		A	

	<u>U.S.A.</u>	<u>EEC</u>	<u>CH</u>
(31.2. Indebtedness to associated undertakings)		A	
(maturity between one and five years)		A	
(maturity longer than five years)		A	
32. Other long term debt	A	B	A
a. bank for borrowings	A	A	C
(maturity between one and five years)	C	A	C
(maturity longer than five years)	C	A	C
b. trade creditors	A	A	C
(maturity between one and five years)	C	A	C
(maturity longer than five years)	C	A	C
c. underwriters, directors*	A	C-E	C
d. debts represented by bills of exchange	C	A	C
(maturity between one and five years)	C	A	C
(maturity longer than five years)	C	A	C
e. payments received on account of orders	C	A	C
(maturity between one and five years)	C	A	C
(maturity longer than five years)	C	A	C
III. <u>Other liabilities and deferred credits</u>			
33. other liabilities	A	A	C
(maturity between one and five years)	C	A	C
(maturity longer than five years)	C	A	C
33.1. Indebtedness to funds for employees)	C	C	A
34. Commitments and contingent liabilities	A	C	C
35. Deferred credits	A	C	C
IV. <u>Provisions*</u>			
36. (Provisions) Reserves	A	A	A
a. (Provisions for pension plans)	D	A	C
b. Provisions for taxation	C	A	C
c. Other provisions	C	A	C
V. <u>(Value adjustments)*</u>			
36.1. (Value adjustments)*	D-E	A	A
a. (on securities forming part of the current assets and liquid assets)	D-E	A	C
b. (on claim forming part of the current assets)	D-E	A	
c. (on stock (inventories))			C
d. (on participating interest and other financial assets)			
e. (on tangible fixed assets)	D-E	A	C
f. (on intangible fixed assets)	D-E	A	C
g. (on formation expenses)	D-E	A	C

	<u>U.S.A.</u>	<u>EEC</u>	<u>CH</u>
VI. <u>Minority interests</u>			
37. Minority interests in consolidated subsidiaries	A		
VII. <u>Stockholders' equity</u>			
38. Capital shares	A	A	A
39. (Reserves)*	A	B	B
a. paid in additional capital	A	A	(A)
b. other additional capitals	A	C	C
c. appropriated retained earnings	A	B	B
d. (legal reserve)		A	A
e. (a.3.2. revaluation reserve)	D-C	A	D
f. (a.3.3. reserve for own shares)	E	A	D
g. (statutory reserves)		A	A
h. (optional reserves)		A	A
i. unappropriated retained earnings	A	B	B
j. (profit for the year)	C	A	(A)
k. (profit brought forward)	C	A	(A)
40. Total liabilities, reserves and stockholders' equity	A	A-B	A-B

D. Income Statement Disclosures

While there is a great deal of uniformity in the balance sheets of the three systems, the income statements reveals a considerable lack of similarity. The only income statement items required by all three laws are turnover (net sales) and net income. This is somewhat unusual since it is recognized and generally accepted in all three political jurisdictions that income determination is the leading objective of the business accounting process. Unfortunately, throughout the world, accountants, economists and legal regulation writers (lawyers) seem reluctant to adopt uniform measurement methods for the determination of periodic business income.

The following broad outline of the classification structure proposed by each jurisdiction reveals the lack of uniformity in income disclosure requirements in the US, EEC and CH.

USEECCHOperating results

Net sales of tangible products*
 Cost of tangible goods sold
 Gross margin
 Other operating revenues
 Costs and expenses applicable to
 other revenues
 Net other revenues
 Other operating costs and expenses
 Selling, general and administrative
 expenses
 Provisions for doubtful accounts
 and notes
 Other general expenses

Other incomes and expenses

Earnings from securities
 Interest on securities
 Losses on securities
 Miscellaneous income deductions
 Other income deduction
 Interest on debt, discount and
 expenses
 Profits on securities
 Miscellaneous other incomes
 Income or loss before income
 tax expenses
 Income tax expenses*

Minority interest in income of
 consolidated subsidiaries
 Equity in earnings of unconsol-
 idated subsidiaries
 Income or loss before extraordinary
 items
 Extraordinary items, less applicable
 tax*

Cumulative effects of changes in
 accounting principles
 Net income or loss

Operating result

Net turnover (net sales)*
 Changes in stock
 Work effected by the under-
 taking for its own
 account
 Other operating receipts
 Cost of raw and auxiliary
 materials
 Staff costs
 Value adjustments
 Other operating expenses

(A) Operating result

Financial result

Earnings from participating
 interests
 Earnings from other securities
 Other interests and similar
 earnings
 Value adjustments
 Interests and similar charges

(3) Financial result

Exceptional result

Exceptional earnings*
 Exceptional charges*
 Exceptional result

(C) Sub-total

Taxes

Taxes on periodic results
 Deferred taxes
 Other taxes
 (D) Sub-total

Results for the year
 (A) + (B) + (C) + (D)

Receipts

Turnover
 Increase in stock of finished
 and semi finished
 products and work
 effected by the under-
 taking for its own
 account and shown
 under assets
 Other revenues

Charges

Cost of raw and auxiliary material
 Taxes, other expenses
 Reduction in stock of finished
 and semi finished
 products

Staff costs
 Interest
 Value adjustments and provision

Three observations are necessary to explain the overall features of income statements:

- 1) One uniformly accepted accounting principle is that one of two external formats may be used for the income statement: the horizontal (multiple step form) and the narrative (single step form).¹⁶ The narrative form approach groups all revenues in one category, all expenses in another and derives a single resultant net income figure. The horizontal form discloses several significant subtotals before the net income figure is revealed.
- 2) The proposed Directive set out two methods of treating and distributing production expenses and receipts. In the lay-outs given in D art 20 and 21 the charges are classified essentially according to their nature:
 - a. Reduction in the stock of finished and semi finished products,
 - b. Cost of raw and auxiliary materials,
 - c. Staff costs,
 - d. Other operating expenses.

In the lay-outs given in D art 22 and 23 the charges are classified essentially according to their function:

 - a. Production cost of output supplied and making up the turnover (including value adjustments)
 - b. Distribution expenses (including value adjustments)
 - c. Administrative expenses (including value adjustments)
- 3) It is generally recognized that the lay-out of the income statement must group charges and earnings into corresponding groups of items and show the different sources of earnings during the year. The proposed Directive follows this principle and the income statement must disclose:
 - a. Operating results showing the gains and losses the undertakings have produced.

¹⁶The SEC which now accepts the single step format so long as it furnishes all the information specified in Rule 5.03.

- b. Financial results showing financial developments.
- c. Exceptional results showing exceptions: Activities unconnected with normal operations during the year.

The data required by Regulation S-X allows the reader to compute operating and financial result. Exceptional results must be shown separately. Under the proposed Swiss law, it would not be possible to compute separately financial and exceptional result. Furthermore, under the Switzerland law the income statement need not disclose the exact net income figure. Arbitrary undervaluation of assets is allowed. In addition arbitrary provisions and depreciation are authorized and may be included, without disclosure, in the income statement under the total "depreciation and provision" amount. Consequently, to find the exact net income figure the reader of the Swiss financial statement will have to add (or subtract) from the net income (or loss), the amount disclosed in the general notes to the financial statement showing the total change for the year in the arbitrary provisions, depreciations and undervaluations (PCO art.19.2.1).

E. General Notes to Financial Statement: Disclosure Requirements

While the Accountants International Study Group, composed of representatives from Canada, the United Kingdom and the United States has recently proposed that the funds statement be included as a part of corporate annual financial statements, and this practice is followed in the United States in annual reports to shareholders, this requirement has not been included in the legislative proposals. As of now the legislative proposals indicate that the annual accounts shall comprise the balance sheet, the profit and loss account and the notes to these accounts. These documents are to constitute a composite whole and articulate with each other.¹⁷ The notes to the financial statement are a necessary element of the annual report and are needed for a proper understanding of the various items in the balance sheet and the profit and loss account. The information required to be disclosed must be set forth on the face of the appropriate financial statement or in notes appropriately captioned and

¹⁷See D art 21; PCO art. 1.1.

referred to the statement (Rule 3.16).

Comparative financial notes disclosure requirements in the U.S., the EEC and CH are set forth in the following table. For each country one of the following descriptions is assigned to each disclosure note required.

- A. The law requires that this information be disclosed.
- B. Disclosure of this information is not required by the law.

"Tableau de comparaisons"

	<u>U.S.A.</u>	<u>EEC</u>	<u>CH</u>
1. Valuation methods applied*	A	A	B
2. Changes in valuation methods	A	A	A
3. Depreciation methods and rates*	A	A	B
4. Preferred share holder rights*	A	A	B
5. Profit sharing plans for directors and employees	A	A	B
6. Emoluments granted to directors, managers	A	A	B
7. Commitments and contingent* liabilities	A	A	A
8. Assets subject to lien*	A	A	A
9. Income tax expenses*	A	A	B
10. Information on authorized capital*	A	A	A
11. Commentary on the accounts*	A	A	A

Other specific general notes disclosure requirements unique to one country

Unique to the United States (Rule 3-16)

- 12. Principles of consolidation or combination.
- 13. Principles of translation of items in foreign currencies.
- 14. Intercompany profits and losses.
- 15. Disclosure of the facts and amounts involved in any default of principal and interest payments ... with respect of any issue of securities or credit agreements...

* Definitions and explanations of terms are presented in Appendix C.

16. Pension and retirement plans with estimated cost of the plan for each period.
17. Restrictions which limit the availability of retained earnings for dividend purpose.
18. Significant changes in bonds, mortgages and similar debts.
19. Basis of revenues recognition: if sales or revenues are subject to alternative method of revenue recognition, the basis of taking profits into income shall be stated.
20. Capital stock optioned, sold or offered for sale to officers, directors and key employees.
21. Warrants or rights outstanding.

Unique to the European Economic Community

22. Information on undertakings in which the company holds at least 10 percent of the capital (D art 41.2 and 42).
23. Total personnel costs of the accounting period unless shown separately in the income statement (D art 41.6).
24. Explanation and reasons for any changes in the layout of the financial accounts (D art 3).
25. Justification for the use of a nonprescribed disclosure format (D art 4.2).
26. Movements in fixed or current assets items not presented in the balance sheet (D art 12.2.4).
27. Explanation of the amounts and nature of exceptional earnings and charges (D art 26.2).
28. An indication if any revaluation from the values disclosed is justified (D art 31).
29. "Formation expenses" and "cost of research and development" must be explained (D art 32.2 and art 34).
30. Items included as "other provisions" shall be specified if substantial (D art 39.2).
31. Prepayments (D art 15) and accruals (D art 18) must be explained if substantial.¹⁸

Unique to Switzerland (PCO art. 19)

32. Creation of dissolution of reserves not appearing on the balance sheet.
33. Consolidated sales.

¹⁸Debates of the European Parliament OJ annex No. 155 (November 1972) p. 184.

-SUMMARY-

Analysis of Differences

A comparative analysis of the three sets of accounting guidelines reveals much in common but significant variations in ordering. Information needs are also implied. Broadly, the United States disclosure requirements appear to place greater emphasis on liquidity, Switzerland seems to grant considerable more leeway to management, and the European Economic Community places the most emphasis on uniformity. Whether these different emphases reflect different cultural values in the separate political areas or are due merely to a randomness that may prevail when different human beings attempt to organize and coordinate their collective actions, the different centers of emphasis represent substantial barriers to the development of international accounting standards.

Greater insight into the differences may be revealed by comparing the disclosure requirements in terms of the following characteristics.

- (1) Liquidity
- (2) Uniformity
- (3) Objectivity
- (4) Scope of disclosure
- (5) Underlying economic theory
- (6) Valuation methods

While other characteristics might have to be considered for a full revelation of the implications and causes of the different accounting requirements in the three areas, a reasonably clear picture of the significant factors is provided by an examination of the six characteristics.

Liquidity

Liquidity disclosure refers to the presentation of accounting information in such a manner that the ability of the firm to change direction, add new and drop old products and services, meet financial obligations, and make distributions to shareholders is

clearly revealed. The U.S. requirement that cash balances be disaggregated into detailed categories and the proposal that compensating bank balances be separately disclosed suggests the U.S. assumes report users will find this information useful in making an assessment of future actions the reporting firm may take. Culturally, the implication is that the financial disclosures are for the use of decision makers in planning credit extension or share purchase rather than disclosure for governmental control purposes.

The US requirement that current items appear first in the list of balance sheet items and that within categories items appear in terms of the time they will provide or require cash is based on the assumptions that statement readers are interested in liquidity and that the more important items should appear first in any communication. In order to improve the quality of the liquidity statement, the US requires valuation allowances, such as estimated losses on receivables be deducted from the asset to which they relate. In this way the liquidity aspects of the asset is emphasized. The US requirement that a detailed schedule of marketable securities be disclosed under certain conditions coupled with the requirement that treasury shares be deducted from issued shares also seem to be aimed at revealing firm liquidity.

Implicit in the valuation of marketable securities is the notion that marketable securities are temporary and constitute something of a ready source of funds. Typically associated with seasonally excess cash, in that seasonal cash is the main source of funds for their acquisition, marketable securities are valued no higher than immediate cash equivalent. To be certain that cash can be obtained quickly from the sale of marketable securities, the US requires that large holdings in one stock of such magnitude that immediate sale of it would depress the market shall be separately disclosed.

Removing treasury stock from the category of an asset indicates that possible means of acquiring funds, as distinct from direct sources of funds, are not included

in the current asset section in order to improve the quality of the liquidity statement. On both the objective of liquidity disclosure and the quality of the liquidity disclosure, the U.S. requirements are more demanding.

The income disclosure format used in the US also tends to emphasize regularly recurring income items from which a cash flow results. Possible explanations for this differentiation between regular and irregular items are numerous. It is however, evident that greater liquidity assures not only debt paying ability but also reflects the flexibility of the firm and its ability to adjust to rapid change. Financial means will be available, to the highly liquid company, for seizing opportunities that might arise in a constantly changing environment. Whether or not this is desirable, depends upon the productivity rate of the assets employed by the firm. In a high risk situation where rates of return should be high, liquidity represents a means of coping with rapid change. On the other hand, liquid assets are at times not as productive as longer lived assets so the trade-off in the U.S. for liquidity seems to imply a greater concern for immediate survival.

Uniformity

The European Common Market is by far the most demanding in the area of uniformity. The layout of financial statements is uniform for all business enterprises. Only in case of a special situation may an undertaking change the legal format but even then it must explain the change and give reasons therefore in the notes. In part, this may be explained by the efforts being applied to coordinate the entire European Community into one unified economic entity. Common concepts and common terminology are imperative to affect this goal. In this sense one might view the emphasis on uniformity in the EEC as a temporary measure which conceivably could be relaxed at some future date once the European Common Market is much more firmly established.

There does appear, in historical perspective, the German emphasis on maintaining accounting records in such a way that national control may be exercised at the highest

political levels.¹⁹ Should this philosophy carry into the European Economic Community, uniformity might have a much longer life and greater emphasis than that implied in the preceding paragraph.

In addition, it may be contended there is good reason to support uniformity: Uniform financial statements in form and content may help investors and creditors more than requirements that permit the use of multiple alternative procedures. The world-wide current trend in financial accounting is toward more and more coordination to assure that annual accounts present consistent measurements and informations. In further support for the view that the EEC uniformity emphasis is not a temporary measure, it should be noted that when laws are passed on an important subject, field or matter, the historical tendency has been to emphasize and develop the legislation rather than to rescind it.

The answer to the question of whether or not uniformity is desirable for the sake of centralized control may depend on the quantity and quality of resources available for use in the economic area and on the need to husband such resources. If national control of resources is desired, uniform accounting measures would be appropriate but if the right to use resources is not to be legally restricted the case for uniformity must be sought on other grounds.

The second justification for uniform accounting measures is political. If control of economic activity is a government objective, regardless of the quantity and quality of resources and regardless of groups within the economy that benefit, uniform accounting would be an effective means for directing the activities of the economy in the most politically expeditious manner.

The third justification for uniformity represents a negative or defensive posture. Uniformity is not supported because it is a desirable end in itself but because it prevents manipulation and misrepresentation that might otherwise occur without it.

¹⁹This remark applies particularly to the German Corporation Law of 1937. The tendency of the 1965 law is more to protect creditors and provide information to shareholders.

Contracted with the EEC are the Switzerland requirements. Swiss requirements tend to emphasize the importance of management rights. Information rights of creditors and investors are considered secondary to the rights of the management. The result of this philosophy is that accounting information providers may vary their accounting procedures from company to company and disclose only in broad categories information on entity activities. This approach is based on the belief that the rights of creditors are better protected by conservative legal accounting rules such as those set forth below:

1. The valuation of assets is legally restricted by placing upper valuation limits on them.
2. Company law allows a company to undervalue assets in its balance sheet.
3. Companies must appropriate at least 5 percent of their annual profit as a legal reserve, as a protection for creditors.
4. Special shareholders meeting must be held when the assets are less than total liabilities and half of the capital (CO art. 725).

While Switzerland may represent a special case, a necessary hold or crack in the total organized structure of world society, as the Swiss requirements now stand uniformity is of minor concern. Whether this is due to the belief that actual economic activities vary so much that uniform accounting is not possible or whether it is to provide the greatest freedom to management to operate as they see fit or whether Swiss culture believes that results have been good and no reason to change exists, definitive conclusions are almost impossible. Empirical research is needed to supply an answer to the alternative possibilities.

In the U.S. uniformity falls between the Swiss and EEC requirements. Consistency over time, a type of uniformity, coupled with reasonable uniformity within industries, represents the U.S. trade-off between the need for uniform data and the need for disclosure of economic reality. While students of the subject tend to support the uniformity concept on the basis that the alternatives open too many doors for manipulation and misrepresentations, men of affairs insist that variations are indeed so great in economic activities that alternative accounting principles must be allowed.

Objectivity

Objectivity seems to be the primary concern of public accounting in the US. Whatever else the data must be objectively verifiable so that different auditors operating independently will come to the same results. This is to be distinguished from uniformity, where the emphasis on common procedures provides the own most verifiable evidence. The requirement of objectivity is minimal under Swiss accounting. Managerial judgements dominate and objectivity is a hoped for but not essential feature of accounting. In the EEC as well, objectivity plays a secondary role because a great deal of uniformity is an impediment to objectivity. Uniformity does not concern itself with the variable nature of business concerns where a uniform transaction may be objectively determinable in one firm and not in another. To obtain an objective financial statement, supporters of objectivity contend a corporation must be able to choose the most appropriate accounting measurement method available and this choice is an economic or accounting one and not a political one. The use of the legal reserves may reflect the EEC endeavor to call attention to the more subjective aspects of EEC accounting. While the current efforts to establish world wide accounting principles by the IASC (International Accounting Standards Committee) may emphasize judgement thereby emphasizing subjective rather than objective measures and thus lend support to the EEC approach, it seems appropriate to suggest that more definitive disclosure of the degree of variation between judgemental information and objective information be fully disclosed in financial reports.

Scope of Disclosure

The scope of accounting disclosures involves both what is disclosed and how and to whom it is disclosed. Dealing with the first, while the US emphasizes more detailed disclosures as contrasted with the EEC and CH requirements, there seems to be little overall variation in the scope of what is disclosed. It is true that the US has expanded the scope of accounting disclosures to include pension liabilities and other significant

executory contracts, such as leases, the EEC requirement that participating interests and securities of associated undertakings be disclosed, in order to call attention to the scope of the financial statements, represents a broadening beyond US practice. While the US may effect complete consolidation of associates, it does not reveal the activities of the subsidiaries as isolated operating entities. The high level of aggregation employed in Swiss accounting, where broad categories such as "accrued liabilities" and "other long term debt" are used, and the placing of all inventories into one category, may be based upon an attempt to deal with the clarity and simplicity in communication problem, but one is inclined to call for empirical evidence to support such a procedure before accepting it. If a high level of aggregation is indeed essential for effective communication the Swiss procedure suggests a significant expansion in the scope of the communication aspects of accounting disclosures.

Dealing with the second feature of the disclosure scope, the important point is not to know how the information is transmitted (filed in a public place or published) but who may have access to it. The question implies a conflict of interest between the enterprise and the people requiring information. On one hand the enterprise wants to keep its privacy and protect its business secrets in order to maintain its competitive position. On the other hand, the public calls for full disclosure as a social right arguing that the public interest is more important than the assumed secrecy needs of business.

In any event, there is no reason to believe there is a public interest in full disclosure of the operations and status of small and private companies. None of the accounting requirements in the three political jurisdictions distinguish clearly between disclosure requirements of large and small companies. In fact, the solutions to the scope of disclosure problem adopted by the three accounting systems are quite distinct. The proposed Directive requires every corporation to publish their annual

accounts in a national gazette.²⁰ By insisting on stricter publication the proposed Directive aims to make the annual accounts more readily available to third parties, among whom are future shareholders of the company.²¹

The Economic and Social Committee has proposed that a company be allowed to omit from the notes to the financial statement any information which by its nature would, in the view of a reasonable business man, be seriously prejudicial to the company (D art 42).

In the United States, the annual accounts filed with the SEC are available for public inspection, but as noted previously less than one percent of American business enterprises are required to file with the SEC. The main purpose of the SEC requirement is to protect the public from misrepresentation and other fraudulent practices in the buying and selling of securities, so the SEC does not and cannot require corporations, not selling securities to the public, to file annual financial reports. Most of the separate states, however, give a shareholder the right to inspect the corporation's records at reasonable times, provided the purpose is "reasonably related to his interests as a shareholder" ... and not for any ulterior motive or purpose adverse to the corporation."

In Switzerland, corporations listed on the Stock Exchange and some special kinds of corporations such as banks are required to publish their annual accounts for public inspection. More than 90 percent of the Swiss corporations, however, have to disclose only their annual accounts to their shareholders. While creditors may have the right to require disclosure of the annual accounts under certain circumstances, third parties do not have this right.

²⁰The Member states may authorize small companies to group certain items in the income statement under operating results, so that the net sale figure will no longer be shown separately (D art 24). Also, the small private-limited liability companies may publish their profit and loss account in an abridged form (D art 50). For exceptions see D art 24; 49.2; 50.2.

²¹The Economic and Social Committee has proposed to allow small corporations to publish their accounts in an abridged form.

Overall, it appears that if international accounting standards are to be realized, accounting research is needed to determine the appropriate level of aggregation needed for effective communication, legal research is needed to determine the extent to which the "right to know" doctrine is applicable for public disclosures, and economic research is needed to determine the most appropriate information for various decision making situations.

Economic Theory

According to economic theory asset values should be measured in terms of their future benefits to the enterprise. In this context the US reliance upon historical costs tends to depart significantly from the economic benefit theory. If, as economists contend, income is the increase in the value of economic resources, Swiss accounting appears to provide the best opportunity for complying with a requirement to disclose economic income. Operationally, however, such a disclosure would be most difficult to measure for a measure of economic reality would require the use of market values and subjective judgements and this would open the door for many alternative valuations. But such seems to be the objective and the use of "value adjustments" in EEC and CH accounting reflect this objective. The inclusion of a "provisions" section on the equity side of the balance sheet in the EEC tends to call attention to the risk aspect of economic activities but formal attempts to disclose risks are well beyond the scope of accounting at the present time. Overall, the implication is that US accounting procedures, being bound by the historical cost doctrine, do not represent effective instruments for portraying economic reality in a rapidly changing economy. Asset revaluations and value adjustments reflect EEC and CH efforts to comply with the requirements of economic reality.

Economic theory has little to contribute to the problem of secrecy in disclosure. The rights of a company not to disclose its competitive secrets or not to disclose anything that would help competitors is not an economic topic. But the implication

of economic theory is that there should be no withholding of competitive advantages due to any type of a monopolistic condition. The inference is that economic theory would require complete disclosure of company activities. The full disclosure requirements of accounting in the United States places it far ahead of the EEC and CH in compliance with this aspect of economic theory.

While economists do deal at times with information economics, seeking to determine the cost and value of various bits of information, this area is not sufficiently well developed to suggest any direction for the development of international accounting standards. Hopefully, future research will provide some means for determining the cost and value to the recipient and to the company of specific types of information.

Value Methods

The EEC separation of long term debt into current, intermediate, and long term obligations reflects a valuation procedure not used in the US. Similarly, the detailed valuation methods required in the US suggests an ability to allocate and assign costs and values to activities not considered possible in Europe. Reflecting this conclusion is the detailed valuation of raw materials and work in process in the US. The US emphasis upon cost rather than value leads to such disclosures as deferred organization costs and deferred debt expenses. In the EEC the valuation rules are based on the purchase price or production cost principle. However to take into consideration fluctuations in the value of money or changes in replacement prices due to any other causes, an exception which allows a Member State to provide for valuation on a replacement value basis, has been introduced in D art 30. In addition D art 31 authorizes the Member States under certain conditions to permit reevaluation. Again one sees the emphasis in the U.S. on detailed disclosures of highly verifiable information as contrasted with the European effort to provide more relevant valuations even though such are frequently not verifiable to the degree of confidence demanded in the United States.

The foregoing analysis suggest that a proper merger of the accounting procedures in the three political areas should result in a significant improvement in accounting disclosures. Some of the detailed aspects of accounting disclosures in the US may well be abandoned in order to obtain the more relevant information suggested by European procedures. On the other hand the excessive uniformity of the EEC and the excessive free disclosure in the UK may have to give way to a more reasonable and realistic disclosure of economic activity. To this end and to the objective of improving international accounting, the authors submit this study.

APPENDIX A

Explanations and Comments onBalance Sheet Items

ASSETS AND OTHER DEBITS

I. Current Assets

One accounting principle uniformly accepted in all three political jurisdictions is that assets and other resources classed with cash and its equivalent as current assets shall reasonably be expected to be realized in cash or to be sold or consumed within one year though the SEC does permit the use of a longer normal operating cycle in certain cases (Rule 3-11; EEC art. 8 A D III; PCO art. 6 ch. 2).

The authors are led to believe that this common view of the current asset concept and its definition suggests common international cultural acceptance of the importance of these accounting items. This implies that the development of international standards may represent a feasible undertaking; at least at a highly aggregated level. Detailed variations in principles necessary to accommodate such an undertaking are the subject matter of this paper.

I.1. Cash and Cash Items

The SEC adopted new rules in June, 1972, but on April 12, 1973 it proposed another accounting rule change that would require corporations to disclose more fully their liquidity and borrowing costs. This proposed change is used in Table I. The new information would provide investors with a better picture of the amount of a company's cash that is readily available for use and the amount tied up in compensating balances or subject to other restrictions.

The implication of this new SEC rule is that through contractual arrangements, enterprises are in fact redefining commonly accepted accounting terms. The new ruling is in keeping with the general international tendency to develop a precise accounting vocabulary. It will be interesting to observe whether or not this US support for precise terminology is adopted in the EEC and CH and if the effort is extended by the SEC to other accounting terms.

The alternative to the foregoing interpretation of this new SEC rule is that precise business cultural values differ between the US and the EEC and CH. That is, the cultural needs in the US may place greater emphasis on the general liquidity or debt paying ability of the firm to meet its obligations than does European business culture. Should this indeed be valid, the implication for international accounting principles is that national subsets of accounting principles might well exist though subject to the constraints of an overall international set of accounting standards.

I.1.b Time Deposits

The US inclusion of time deposits as current assets, wherein withdrawal of cash for immediate use may be contractually restricted, is based on the accepted custom that withdrawals may be immediate. Should this custom not exist or change, a reclassification of such items into other assets would be appropriate.

I.2. Marketable Securities

Another generally accepted accounting principle deals with marketable securities and refers only to securities having a ready market and which represent the investment of cash available for current operations (Rule 5.02.23; D art. 8 A D III, 5; PCO art. 6.3). These assets arise because of the tendency for business to turn unproductive cash balances into productive resources through an investment in marketable securities. Marketable securities, usually short term notes, bonds or common stocks, are characterized by their stable and readily determinable market price. The following securities should not be considered as current assets by widely accepted accounting principles.

1. Stocks and bonds not widely held or frequently traded.
2. Securities intended to be used for non-working capital purposes.

According to Regulation S-X, a detailed schedule of marketable securities shall be filed if the greater of the aggregate cost or the aggregate market of marketable securities based on the market quotations as of the balance sheet date constitutes 10 percent or more of the firm's total assets (Rule 5.06).

While the proposed Directive does not state specific rules for the valuation of

securities, in Switzerland securities quoted on the stock market must not be valued at a higher amount than their average quotation during the month of the valuation date (PCO art. 15). The principle set out, however, indicate only upper limits.

I.2.1. Reacquired Shares

In the United States reacquired shares not retired (treasury shares) must be shown separately as a deduction from capital shares or from other stockholders' equity at either par (or stated) value or cost, as the circumstances require (Rule 3-14). These instructions imply that treasury stock may not be shown as an asset.

In the proposed Directive, if the National Law authorizes the inclusion of a company's own shares in the balance sheet, these shares must be shown either as current assets or as fixed assets, according to whether the company plans to retain the shares or sell them in the near future. It follows from the Commission's Statement of Grounds, that if a company's own shares are entered as an asset, an item "Reserve for reacquired shares" must be shown on the liability side. Furthermore the par or book value of the reacquired shares must be indicated (D art. 8 A C III, 7).

With some exceptions, Swiss corporations are not permitted to reacquire their shares (CO art. 659). Consequently treasury stock does not appear in financial statements but may be mentioned in the management report (CO art. 659 ch. 4).

I.22. Notes Receivable

According to Regulation E-X, only if the aggregate amount of notes receivable exceeds 10 percent of total receivables must information be set forth separately for accounts receivable and notes receivable (Rule 5.02.3 d). The proposed Directive varies from the SEC format and requires the showing of "notes receivable" under the caption "securities forming part of current assets." The layout of current assets follows (D art 8 A D):

- I. Stocks (inventories) ...
- II. Debtors (accounts receivable) ...
- III. Securities forming part of the current assets, and liquid assets which include;

1. holding in associated undertakings
2. bills of exchange (notes receivable)
3. bank balances ... cash in hand
4. own shares
5. other securities

Accounts and notes receivable. (I.3.b. from parents and subsidiaries, I.3.c. from undertakings with participating interest, I.3.d. from associated undertakings) There are divergences between the US and EEC regarding the concept of subsidiaries. Unfortunately, definitions on this subject are somewhat ambiguous and imprecise, as shown below.

Parents and subsidiaries in the U.S. Rule 1.02 of Regulation S-X provides the following definitions of an affiliate, parent and subsidiary:

1. An "affiliate" of, or a person "affiliated" with, a specific person, is a person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the person specified.
2. A "parent" of a specific person is an affiliate controlling such person directly, or indirectly, through one or more intermediaries.
3. A "subsidiary" of a specific person is an affiliate controlled by such person directly, or indirectly, through one or more intermediaries.

Undertakings with participating interest in the EEC. The term "participating interest" is used in the proposed Directive to mean rights in the capital of other undertakings, whether or not represented by certificates, which, by creating a durable link between them, are for the purpose of contributing to the activities of the company. A holding of 10 percent of the subscribed capital of another undertaking shall be presumed to constitute a participating interest (D art. 14).

Associated undertakings in the EEC. The proposed directive does not include a definition of an associated undertaking, but one will be included in a future directive (See D art 51.2).

I.4. Allowance for Doubtful Accounts and Notes Receivable

In the United States, asset valuation allowances, for losses such as those on receivables, are deducted from the assets to which they relate and are so disclosed. In the EEC and in Switzerland such allowances are either deducted from the assets or

shown on the credit side of the balance sheet (PCO art. 18; D art 8 PC 6). The EEC Accountants' study group proposes the showing of the "value adjustments" either as a separate item on the asset side, or by way of a deduction from the assets to which they relate, or in the notes if only the net figures appear on the asset side of the balance sheet. It is generally accepted as an accounting principle that accounts and notes receivable known to be uncollectible shall be excluded from the assets as well as from the allowance accounts.

I.5. Unearned Income

In the United States unearned discounts, finance charges and interest included in receivables shall be shown separately and deducted from the applicable receivable caption. In Europe such an item is shown as a deferred credit on the balance sheet.

	Assets		Liabilities
<u>U.S.</u>	Receivables 200		
	less unearned		
	income <u>20</u>		
	Net receivables 200		
<u>EEC-CH</u>	Receivable 220	Deferred credit	20

I.6. Inventories

The proposed directive joins the two items, raw material and supplies, into one account "raw and auxiliary materials" (D art 8 AD I.1). While this is an interesting variation from U.S. requirements, the important question is the method of valuing inventories. On this problem a lack of uniformity prevails. The only widely accepted accounting principle could be that the basis of determining the amounts shall be stated (Rule 5.02.6.b; D art. 41, ch. 1). Switzerland, however, requires only that modifications of the valuation method be stated (PCO art. 19 al.2). Otherwise valuation principles are quite different in the three accounting systems. In the US, if a basis such as "cost," "market," or "cost or market whichever is lower" is given, there shall also be given, to the extent practicable, a general indication of the method of determining the "cost": e.g., "average cost," "first-in, first-out," "last-in, first-out," and

the method of determining "market" if other than replacement or current cost is used. If the LIFO method is used, the excess of replacement or current cost over stated LIFO value shall, if material, be stated parenthetically or in a note to the financial statements (Rule 5.02.6b). For this purpose any inventory method (such as LIFO or average cost) which derives a figure approximating current cost may be used.

The EEC proposed directive requires that inventories shall be valued at purchase price or production cost (D art 36). But value adjustments shall be made so that inventories are valued at the lower market value attributable to them at the date of the balance sheet (D art 36.1). The purchase price or production cost of stocks of goods in the same category may be calculated either on the basis of weighted average prices or by LIFO, FIFO or some similar method (D art. 37).

In Switzerland the valuation of inventories may not exceed cost or market whichever is lower and the proposed law does not require a specific method for determining either cost or market.

I.8. Prepaid Expenses

The EEC proposed directive provides that the category "prepayments" on the assets side shall include expenditures incurred during the year but relating to a subsequent year, and the earnings related to the year to the extent that they will not be received until after the close of the year. The latter, however, may also be shown under debtors (D art.15). It follows from the Commission's Statement of Grounds that coordination on this point has not been considered necessary, as the amounts normally shown under this item are not very large. This same is true of "Accruals" shown under liabilities (see notes on I.26). In Switzerland, "prepaid expenses" is always a current asset.

II.12. Other Securities Investments

A schedule of the securities held shall be filed if the amount of other security investments shown in such balance sheet constitute ten percent or more of total assets, or if security investments, plus marketable securities constitute fifteen percent or

more of the balance sheet (Rule 5.04).

II.13.1. Reacquired Shares

See comments on note I.2.1.

III.14. Property

In the EEC and in Switzerland land and buildings are treated as one item (D art 8 A C II, 1 and PCO art.5.2.). According to the Statement of Ground of the proposed Directive Art. 13:

"The fixtures and fittings, forming part of buildings, which must be shown under the item land and buildings are, for example, heating, lighting, air-conditioning system, etc. Machinery and production equipment do not, however, form part of this item."

III.15. Accumulated Depreciation of Property

In the United States accumulated allowances for depreciation are deducted from the assets to which they relate, (APB Opinion No. 12), while in Europe, such depreciation provisions are deducted from the assets to which they relate, or are shown on the credit side of the balance sheet.

IV.17. Accumulated Amortization of Intangible Assets

While the SEC has never published rules regarding accounting for intangible assets, experienced practitioners in the U.S. know that the SEC has limited their amortization schedule as follows:*

- | | |
|-------------------|--|
| 1. to six months | -- deferred advertising and special promotional costs |
| 2. to three years | -- excess purchase price of small loan finance paper
cost of opening stores |
| 3. to five years | -- research and development costs |
| 4. to nine years | -- goodwill |

In Europe, as in the U.S., such amortizations of intangibles are deducted from the assets. The proposed Directive states that the items "formation expenses," "cost of research and development," and goodwill shall be written off over a maximum of five years. The EEC Accountants Study Groups has proposed that "Goodwill" and "Cost of research and development" be amortized over a prudent estimate of their economic life. This same time period is allowed in Switzerland where the limit for amortizing organ-

*Rappaport SEC Accounting Practice and Procedure (3rd ed.) 1972, 3.36)

ization expenses is five years (PCO art. 16).

V.20. Deferred Research and Development Expenses

In the EEC costs of research and development are combined under the same caption and so disclosed to the extent that the National Law permits them to be recorded as assets. As noted above, this item is considered as an intangible asset (D art. 8 A cI,1) and valuation rules are prescribed by D art 32 and 34.

V.21. Deferred Organization Expenses

In the EEC this expenditure is disclosed as an asset only if National Law authorizes it (D art 8 A B). In Switzerland PCO art. 16 allows five years, as a limit, within which the formation expenses must be amortized.

V.22. Deferred Debt

Expenses incurred in connection with the issuance of long-term debt may be deferred and amortized by charges to income over the life of the debt. In the EEC, the U.S. procedure is supported by proposed directive which states that where the amount of any debt repayable is greater than the amount received, the difference may be shown as an asset. The amount of such difference shall be written off not later than the time when repayment of the debt is made (D art. 38).

V.23.1. Subscribed Capital Unpaid

The EEC and CH state that unpaid subscribed capital must be shown on the balance sheet as an asset as it represents a claim of the company against its shareholders (D art. 8 A A; PCO art. 5.1).

LIABILITIES, RESERVES AND SHAREHOLDERS' EQUITY

I. Current Liabilities

Rule 3-12 defines the general meaning of current liabilities: "Obligations which are payable within one year or whose liquidation is reasonably expected to require the use of existing current assets (see Rule 3-11) or the creation of other current liabilities shall be classed as current liabilities. However, if the normal operating cycle of the company is longer than one year, generally recognized trade practices may be followed with respect to the exclusion of items such as customers' deposits

and deferred income, provided on appropriate explanation of the circumstances is made."

In Switzerland the lay out of current liabilities is as follows (PCO art. 10):

1. Obligations which are payable within one year.
2. Payments received on account of orders (at) short term.
3. Accrued liabilities.

The proposed Directive (D art 8 P E) requires that there be shown separately for each item the amounts becoming due and payable:

1. Within one year
2. Between one and five years
3. Later than five years

I.25. Accounts and Notes Payable

On April 12, 1973, the SEC proposed certain amendments for this caption and the proposed changes are used in table 1. One amendment provides that the interest rate and terms of each category of short term borrowings shall be disclosed along with the maximum amount of short term borrowings, outstanding at any month-end during this period (proposed Rule 5.02.25 b).

According to D art 8 P E, amounts covered by valuable security furnished by the company must be shown separately for each item. By this means, creditors and third parties will know the extent to which the company's assets are subject to claims and the extent to which other creditors have prior rights.

I.25.b. Holders of Commercial Paper

The SEC plans to make this caption applicable to financial statements for periods ending after August 31, 1973. This new disclosure, which is not required for the notes receivable (current assets), would force a company to describe in detail the amount of commercial paper it has issued. This is significant since commercial D art 8 P E 5 requires disclosure of all debts represented by bills of exchange as one item without any distinction other than the period of maturity.

I.25.h. Accounts and notes payable to underwriters, directors...

Rule 25.a.6. of Regulation S-X deals with this account which refers to the

amounts payable to underwriters, promoters, directors, officers, employees and principal holders (other than affiliates) of equity securities of the enterprise and its affiliates. ASR No. 41 provides that amounts due to officers and directors, because of their special nature and origin, ought generally to be set forth separately even though the dollar amounts involved are relatively small.

According to D art 41.10 the notes on the accounts shall set out the amount of advances and credits granted to members of administrative, managerial and supervisory bodies, and commitments entered into on their account by way of guarantees of any kind, including the showing the total for each category.

I.26. Accrued Liabilities

The proposed directive states that "accruals" on the liabilities side shall include income received before the balance sheet date but attributable to a subsequent year, and charges which, though relating to the year in question, will be paid in the course of a subsequent year. The latter may also be shown under creditors.

In Switzerland this item is a current liability since its nature is similar to prepaid expenses which are current assets (PCO art. 10.3.).

II.32.c. Long Term Debt--Underwriters, Directors...

See comments on note I.25.h.

III.34. Commitments and Contingent Liabilities

See on Appendix C note N^o 6.

IV.36. Provisions

V.36.1. Value Adjustments

VII.39. Reserves

The term "reserve" is used in accounting in a variety of different and somewhat conflicting senses. The variation in American and European balance sheet classification contributes to the confusion and makes comparisons difficult. In this study, the following terminology will be used:

Provisions: Provisions are created by charges to expenses accounts. Provisions may indicate among other things an estimate of:

1. An admitted liability of a certain amount (i.e. provisions for pension plans or provisions for damages).
2. A probable amount of a disputed claim (i.e. the case of a provision for additional taxes).
3. An uncoverable cost which might arise under the company's guarantee of its products.

Provisions represent hidden reserves only if they are overstated or if the contingency or condition against which they are provided is indefinite and problematical.

Provisions for contingencies and charges are defined strictly by D art 17 in order to avoid overstatement of these items and the formation of hidden reserves.

Value adjustments

Value adjustments are created by charges to expenses accounts. Value adjustments may indicate among other things:

1. Amortization, depreciation or depletion.
2. A deferred estimated loss (i.e. allowance for uncollectible account).

According to D art 15 value adjustments differ from provisions for contingencies and charges (see D Art 17) in that they are adjustments made in respect of assets in the balance sheet, whereas provisions for contingencies and charges relate to future foreseeable losses or charges. There are four methods of presenting the value adjustments on a balance sheet. To illustrate these methods assume the following:

account receivable	12,000	allowance for uncollectible account	2,000
machinery	40,000	depreciation accumulated	8,000
Inventory	100,000	deferred estimated losses	4,000

Alternative solutions:

1) EEC-CH

	<u>Assets</u>	<u>Liabilities</u>
account receivable	10,000	
machinery	32,000	
inventory	96,000	

The value adjustments should appear in the notes

2) CH

<u>Assets</u>		<u>Liabilities</u>	
account receivable	12,000	accumulated depreciation	8,000
machinery	40,000	provisions	6,000
inventory	100,000		

3) EEC

<u>Assets</u>		<u>Liabilities</u>	
account receivable	12,000	value adjustments of securities forming part of current assets	2,000
machinery	40,000	tangible fixed assets	8,000
inventory	100,000	stock (inventory)	4,000

4) U.S.-EEC

<u>Assets</u>		<u>Liabilities</u>	
account receivable	12,000		
allowance for uncollectible account	(2,000)		
net receivable	10,000		
machinery	40,000		
accumulated depreciation	(8,000)		
undepreciated	32,000		
inventory	100,000		
deferred estimated losses	(4,000)		
	96,000		

The proposed Directive requires that the value adjustments be included on the liabilities side "to the extent that these do not appear among the assets or in the notes on the accounts" (D art 8 P C). The EEC Accountants' study group proposes this caption be suppressed. It holds that it would appear sufficient for the value adjustments to be shown either as a separate item on the asset side by way of deduction from the assets to which they relate or in the notes if only the net figures appear on the asset side of the balance sheet.

Reserves

The term "reserve" is properly used to describe certain parts of retained earnings. Reserves should appear in the balance sheet as part of the stockholders' equity.

APPENDIX "B"

Format, Explanations and Comments onIncome Statement Items

Comparative analysis of income statement formats is somewhat difficult because of overlapping classifications. For example, the "cost of goods sold" is not comparable if labor costs are extracted from it and included with selling and administrative labor elements. The different classifications are particularly significant, since they reflect different cultural values, so even a crude comparison of income statement disclosure may be revealing. For convenience, the notations defined on page 16 will be used.

COMPARISON OF INCOME STATEMENT ITEMS

<u>I. Operating result</u>	<u>U.S.A.</u>	<u>EEC</u>	<u>CH</u>
1. Net sales of products ^a	A	A	(A)
2. Cost of goods sold	A	B	B
3. Changes in stocks of finished and semi-finished products	B	A	A
4. Work effected by the undertakings for their own account and shown under assets	D	A	A
5. Cost of raw and auxiliary materials	E-D	A	C
6. Gross margin	B	D	D
7. Other operating revenues	A	A	C
8. (Gross results)	D	A	D
9. Cost and expenses applicable to other revenues	A	C	C
10. Other operating costs and expenses	A	C	C

^aIn the US Net Sales of tangible products include gross sales less discounts, returns and allowances (Rule 5-03 IA). While in the EEC "the net amount of turnover includes receipts from sales of products, goods and services falling within the usual operations of the company, after allowing for any price-reduction in respect of those sales, and for value-added tax and other taxes directly tied to the turnover." (D art 25)

	<u>U.S.A.</u>	<u>EFC</u>	<u>CH</u>
11. Selling, general and administrative expenses	A	C	C
12. Staff costs	C	A	C-E
13. Value adjustment in respect of formation expenses and a tangible and intangible assets.	C	A	C-A
14. Value adjustments of current asset elements	A	A	D-B
15. Provision for doubtful accounts and notes	A	(A)	C-A
16. Other adjustments of current assets	A	(A)	C-A
17. Other expenses	A	C	C
18. Other operating expenses	C	A	C
19. Operating income (operating results)	A	A	D-B

II. Financial result

1. Dividends and interest received	A	C	C
a. securities of affiliates not controlled	A	C	C
b. marketable securities	A	C	C
c. long term investments	A	C	C
2. Earnings on securities	A	C	C
a. securities of affiliates	A	C	C
b. equity in earnings of unconsolidated subsidiaries	A	D-C	DC
c. marketable securities	A	C	C
d. other securities	A	C	C
3. Earnings from associated and non associated undertakings, shown separately	C	A	C
a. from participating interests	C	A	C
b. from other securities	C	A	C
c. from fixed assets	C	A	C
d. from other sources	C	A	C
e. value adjustments of investments			

II. <u>Financial result cont.</u>	<u>U.S.A.</u>	<u>EEC</u>	<u>CH</u>
4. Profits and losses on securities	A	C	C
5. Miscellaneous other incomes less miscellaneous income deductions	A	C	C
6. Interest and amortization of debt, discount and expenses	A	B	A
a. on bonds mortgage and similar debt	A	(A)	C
b. amortization of debt, discount or expenses	A	(A)	D-C
c. other interests	A	C	C
7. Interest and similar charges with separate disclosure of those to associated undertakings	C	A	C
8. Miscellaneous income deductions	A	C	C
9. Financial result	B	A	D
10. Income or loss before income tax expenses and appropriate items below)	A	B	D
III. <u>Taxes</u> ^b			
1. Income tax expenses	A	B	D
2. Actual	C	A	C
3. Future	C	A	D
4. Income or loss before extraordinary items	A	B	D
IV. <u>Exceptional result</u>			
1. Extraordinary items, less applicable tax ^c	A	D	D-C

^bUnder the item Taxes on the Result shall be shown the actual amount of taxes payable for the year and, separately, the amount of the future tax liability (D art 27). The future tax liability is a tax in respect to which the fiscal liability arises during the course of the year, but for which payment will be deferred to subsequent years. In its commentary the commission provides the following example: If fiscal law permits accelerated amortization, taxable profit is reduced accordingly but will increase in subsequent years, since the assets will already have been written down and the depreciation charge will be lower. In such a case the amount of the future liability tax must be disclosed.

^cAny material items and the tax applicable to each must be disclosed separately. (Rule 3.03.19) In EEC and CH disclosure of tax effect is not required.

	<u>U.S.A.</u>	<u>EEC</u>	<u>CH</u>
a. (exceptional earnings) ^d	D	A	C
b. (exceptional charges) ^e	D	A	C
c. (exceptional result)	D	A	C
2. Cumulative effects of changes in accounting principles	A	D-E	D
3. Minority interest in income of consolidated subsidiaries	A	D-C	D-C
Net income or loss	A	A	A-C

^dUnder these items shall be shown earnings and charges that are (1) attributable to another year, and (2) not arising from usual operations of the undertakings. (D art 26.1) These items are similar to extraordinary items in the U.S.

APPENDIX "C"

Explanations and Comments on Notes to
Financial Statements

1. Valuation Methods Applied

Rule 3.08 of regulation S-X requires that information on the valuation methods used, as reflected in the accounting principles and practices used in the preparation of financial reports, shall be disclosed in the notes to the financial statements. This note may be presented in the form of a single statement. In the EEC, the notes on the accounts shall set out the valuation methods applied to the various items in the annual accounts (D art 41.1). In Switzerland the notes have to show and explain only any changes in methods of valuation (PCO art. 1.3 and 19.2.3).

2. Depreciation Methods and Rates

The notes, in Switzerland, have to show and two explain only any changes in methods or rates of amortization (PCO art. 19.2.2).

3. Preferred Shares

The date and the amounts per share at which preferred shares are callable shall be stated (Rule 3.16.f). In the EEC the notes on accounts shall contain any entitlements carrying the right to a share of profits, any convertible debentures or similar securities or rights. (D art 40.4)

4. Commitments and Contingent Liabilities and 5. Assets Subject to Lien

In the United States, if material in amount, the pertinent facts regarding firm commitments for the acquisition or permanent or long-term investments and property, plant and equipment, and for the purchase, repurchase, construction or rental of assets under material leases have to be disclosed. Where the annual rentals or obligations under noncancelable leases which have not been recorded as assets and liabilities are more than one percent of total sales and revenues of the most recent fiscal year, there must be shown (1) the minimum annual rentals for the current and each of the five succeeding years; (2) the nature and effect of any provisions that would cause

the annual rentals to vary from the minimum rentals; (3) a description of the types of property leased, important obligations assumed or guarantees made, and any other significant provisions of such leases (Rule 3.16 (i)).

The proposed directive deals with the commitments and contingent liabilities in several provisions.

1. Amounts covered by valuable security furnished by the company, must be shown separately for each item (D art. 8 L E).
2. All commitments by way of guarantee of any kind entered into for account of third parties shall, if there is no obligation to show them under liability be clearly set out below the balance sheet or in the notes on the accounts... and specifying what valuable security, if any, has been provided. Commitments of this kind existing in respect of associated undertakings shall be shown separately (D art. 11).

-the note of the accounts shall set out the overall amount of the financial commitments that are not shown in the balance sheet, in so far as this information is of assistance in asserting the financial position ...(D art. 40.5).

In Switzerland, the following items shall be set out separately below the balance sheet (PCO art.11)

- | | |
|--|---|
| 1. les coutionnements | commitments by way of guarantee (caution money) |
| 2. les obligations conditionnelles | contingent liabilities |
| resultant d'effets de change | resulting of bill of exchange |
| 3. les obligations de garantie | liabilities resulting from guarantee |
| 4. gages constitués en faveur de tiers | pledged assets entered into for accounts of third parties |
| 6. <u>Income tax expenses</u> | |

Disclosure has to be made, in the income statement or in a note thereto, of the components of income tax expense, including

1. Taxes currently payable.

2. The net tax effects, as applicable, of (i) timing differences and (ii) operating losses.
3. The net deferred investments tax credits ... (Rule 3-16 (o)).

The Directive requires the notes to disclose:

1. The taxes included in the operating result and the financial result and exceptional result (D art 41.7).
2. The amount of the changes in results for the year due to the application of fiscal laws (D art 41.8).
3. If the items of fixed or current assets are the subject of exceptional value adjustments under fiscal law, the amount of the adjustments shall be indicate (D art 33.1.d and 36.e.).

7. Information on Authorized Capital

The note on the account shall explain the way in which the authorized capital has been employed if any such capital has been created (D art 41.3) (PCO art.19.2.3).

8. Commentary of the Accounts

The notes on the accounts shall contain a commentary on the balance sheet and profit and loss account in such manner as to give as true and fair a view as possible of the company's assets, liabilities, financial position and results (D art 40) (PCO art 19.1).



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